



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

EXECUTIVE SUMMARY

CITY OF BAYONNE SCHOOL DISTRICT

July 1, 2015 to June 30, 2016

We found the primary factors that contributed to the fiscal year 2016 year-end General Fund budgetary deficit were the unreported designation of \$4.7 million in reserve for excess surplus at fiscal year-end 2015 and the inappropriate encumbering of at least \$1.8 million and \$4.2 million for payment of subsequent year expenditures at the end of fiscal years 2015 and 2016, respectively. If the reserve was properly identified and these funds were not encumbered, the district would not have reported the General Fund unassigned budgetary deficit of \$2,003,625, but rather a budgetary surplus of \$3.0 million. The district also under-budgeted \$5.7 million in non-salary accounts which were funded by transfers from adequately budgeted salary accounts.

AUDIT HIGHLIGHTS

- A legally restricted prior year reserve for excess surplus of \$4,744,715 reported at fiscal year-end 2014 and designated as a use of the General Fund budgetary fund balance in the fiscal year 2016 budget was not disclosed at fiscal year-end 2015, resulting in the incorrect calculation of \$1,523,324 in current reserve for excess surplus. We also reviewed fiscal year 2015 and 2016 General Fund year-end encumbrances totaling \$2.3 million and \$5.6 million and concluded that over \$1.8 million and \$4.2 million were inappropriately encumbered for their respective following years' expenditures. If the reserve was properly identified and fiscal years 2015 and 2016 funds were appropriately encumbered, the unassigned budgetary fund balance for fiscal year-end 2016 would have been a surplus of at least \$3.0 million instead of a \$2.0 million deficit.
- The district's actual fiscal year 2016 salaries were \$79.9 million and exceeded the final budget by over \$5.0 million. The original budget for total salaries would have been sufficient to provide for these salaries, however, over the course of the year, the district transferred nearly \$5.7 million from their salary accounts to other under-budgeted accounts including health benefits (\$2.5 million) and tuition to private and charter schools (\$1.4 million).
- Monthly health benefit billings are not reviewed to verify enrollment eligibility and to recover unreimbursed premiums. We noted nine employees on approved leave of absence from whom premium contributions were not collected for periods ranging from two weeks to three months and four former employees who were not removed (or billed) from health benefits coverage for periods ranging from one to eight months. As of August 30, 2017 we noted uncollected employee premium contributions of \$10,000 and \$11,500 in district paid health benefits premiums for former employees.
- The district has been providing medical, prescription, and dental benefit coverage to a spouse of a former employee since the employee passed away in June 2000. The annual cost of these benefits to the district was \$11,400 during fiscal year 2016.

AUDITEE RESPONSE

The school district generally concurs with our findings and recommendations.

For the complete audit report or to print this Executive Summary, click on the attached files.